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JAN 13 1977

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Dear George:

I have attached a report of the EPB's meeting with you on November 9, which summarizes the main points of our discussion and lists several recommendations. This was a highly useful exchange and I hope that periodic EPB meetings with the Director of Central Intelligence will be institutionalized by the new Administration.

I would also hope that you would brief your successor on what transpired at this session and that you would urge him to carefully review our principal observations.

I am also sending a copy of this report to all members of the EPB and to Leo Cherne as well. You may recall that Bill Casey raised some interesting points at the meeting and followed this with a written report which we disseminated to all those who attended the EPB. I thought you might be interested in my comments to Bill which I have also attached.

I have been greatly encouraged, George, by the enormous progress we have made over the past two to three years in strengthening intelligence support for economic policy and negotiations and in improving our two-way communications. It is heartening to me to see Treasury now so actively involved with intelligence as a full-fledged participant in the intelligence community.

Much of this gain, George, has taken place on your watch and with your active support. I do want you to know how much I appreciate the help and the assistance of so many of your people as well. There are too many names to

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25X1 enumerate but [redacted] Hank Knoche, Maurice Ernst, [redacted]
[redacted] Bill Wells and [redacted] and their people
have all done an absolutaly superb job for us. Please
convey my warmest thanks to all of them.

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Best regards,

Sincerely,

(Signed) DR

William E. Simon

The Honorable George Bush
Director
Central Intelligence Agency
Washington, D. C. 20505

Enclosures

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REPORT TO THE ECONOMIC POLICY BOARD
on
INTELLIGENCE SUPPORT

January 13, 1977

REPORT TO THE ECONOMIC POLICY BOARD ON INTELLIGENCE SUPPORT

BACKGROUND

In an effort to strengthen intelligence support to officials responsible for economic policy and to improve the interface with the intelligence community the Chairman, Secretary Simon, called a meeting of the EPB for November 9, 1976, and arranged for the Board members to discuss with the Director of Central Intelligence (DCI), George Bush, and with the Chairman of the President's Foreign Intelligence Advisory Board Leo Cherne their experience with intelligence and their recommendations to enhance this relationship. (Tab A) The following report is based not only on discussions during the meeting (Tab B) but on the views expressed in writing by a number of Board members following the meeting. (Tab C)

GENERAL OBSERVATIONS

Several of the members and Leo Cherne indicated that support from the intelligence community, particularly from CIA, had improved significantly in recent years. It was clear, however, that many departments and agencies have not been fully aware of the potential benefits from intelligence to their activities and that adequate arrangements have not been developed to ensure an effective interchange with CIA or with the other intelligence agencies. All agreed that closer ties should be established to ensure a greater awareness of intelligence capabilities and to better inform intelligence as to policy developments requiring intelligence support.

In addition to these general observations a number of more specific views were also expressed during the meeting.

1. Organizational

a. The intelligence community is organized in a way which understandably focuses primarily on military intelligence. This is reflected by the deliberations of the Committee on Foreign Intelligence and the National Foreign Intelligence Board and by the way in which intelligence resources are allocated. It was suggested that some new organizational arrangement might be considered to ensure greater attention to economic and politico-economic matters. The DCI, for example, thought that considera-

tion might be given to establishing a new Economic Intelligence Board within the intelligence community structure.

b. Except for Treasury and State none of the EPB member agencies are involved extensively with the intelligence community. Secretary Richardson felt that it would be useful to have the Department of Commerce more formally involved in intelligence community activities (e.g., membership on NFIB). Some members thought that better arrangements should also be worked out for more active participation for other departments and agencies as well.

c. There has been inadequate dialogue between top intelligence and policy officials in the economic area regarding upcoming policy and negotiating issues and the need for changes to strengthen the policymaking-intelligence relationship. This particular EPB meeting with Bush was one of the first attempts to do this. It was generally agreed there should be periodic meetings of this kind at the top level.

d. Many of the government organizations represented by the EPB members have no one on their staffs responsible for developing an adequate interface with the intelligence community. Those organizations, such as State and Treasury, which are staffed to ensure active ties with CIA and the other intelligence agencies have derived substantial benefit from both intelligence production and collection. A number of other agencies recognize that they have not adequately taken advantage of the intelligence available. Secretary Richardson, for example, reported that he has a study under way which suggests that Commerce has been receiving only about 60 percent of the intelligence pertinent to its interests. This study will recommend new arrangements for more effectively utilizing available intelligence including: development of procedures for better two-way communications, assignment of responsibilities for interfacing with intelligence, clearing more Commerce officials for access to classified materials and development of better arrangements for handling, disseminating and storing classified materials. Secretary Usery indicated that his Department too would seek to improve its arrangements for developing contacts with intelligence.

e. While improvements have been made in some departments in recent years to provide feedback to the intelligence community

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regarding the adequacy of intelligence support and to ensure that intelligence is fully informed of developments in policy areas requiring intelligence support most departments and agencies have no systematic arrangements for doing this.

f. Some members felt that intelligence was not organized to effectively undertake multi-disciplinary analysis and longer term studies. The importance of assigning a greater effort to the linkage between political and economic developments was stressed by a number of the Board members. George Bush, however, pointed out that CIA is aware of this problem and is in the process of reorganizing to cope with it.

g. Bill Seidman expressed the view that a key problem in the interface between the intelligence community and the Executive Branch involves the organization within the White House. He suggested that it is essential that the organizational structure not separate international and domestic economic policy. He particularly felt that it was important for the White House and executive departments and agencies to coordinate their demands on the resources of the intelligence community.

2. Procedures and Arrangements

a. The DCI mentioned that many consumers keep intelligence at arms length either because they are concerned about some imagined contamination from a close relationship or because they are unwilling to keep intelligence fully informed of the information they acquire through their own activities (e.g., conversations with top foreign officials) and are not willing to fully share information on policy and negotiating developments which intelligence requires to properly focus its collection and production activities.

b. Most agreed that the consumers of intelligence have been handicapped by classification. Many items seem over classified and it is usually impossible to determine which material in a particular report is classified or sensitive and which is not. This often makes it very difficult for policy officials to use the material in the most effective way. The DCI and other CIA representatives in the meeting indicated that intelligence is already addressing this problem and difficulties in this area could be

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partially relieved if intelligence were informed as to the intended use of the material. Intelligence can tailor its reports to meet classification requirements.

c. Some consumers and intelligence officials as well have suffered from an inability to obtain not only memcons of policymakers' conversations with foreign officials but EXDIS and NODIS cables as well which relate to developments of particular interest to them. Secretary Simon made special reference to the serious problems he has confronted in this area.

d. Some members pointed out that there is a great deal of duplication particularly between State and Treasury in their requests for intelligence assistance. It was generally agreed that consumers and intelligence officers should seek ways of minimizing this duplication.

e. Much of the analytic product of the policy desks in various departments and agencies is not passed to intelligence for their background use (e.g., briefing books and background papers for policy meetings). As a consequence intelligence is often not aware of reports that could contribute significantly to their own analysis. Moreover, intelligence often unnecessarily duplicates work done by the policy desks. (Secretary Simon strongly endorsed the need for greater intimacy and made it clear that he has given instructions for all such Treasury material to be passed to intelligence.)

f. The question of the appropriate role for external research was touched on as well as procedures for drawing more actively on experts outside of government. The DCI noted that the intelligence community is searching for ways to bring outside talent increasingly to bear on substantive intelligence issues.

g. Secretary Richardson stated that consideration should be given to improving support in the commercial intelligence area. With the exception of major commercial opportunities abroad which bear at least indirectly on our national interests (e.g., a multi-billion dollar sale of aircraft to Europe) intelligence has done relatively little in the commercial area. There is an important question in this connection as to whether commercial intelligence is sufficiently related to the national security to warrant major attention by intelligence collectors and producers.

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h. Mr. Casey expressed the opinion that the intelligence community should organize its domestic contact activities to ensure more effective collection of economic information. On this point the DCI said that with all of the unfavorable publicity about CIA many business contacts have become very sensitive about any appearance of collaboration with the Agency.

3. Substantive Issues

a. George Bush reviewed a number of substantive topics on which intelligence has provided significant support to the economic policymakers. These include: defense aspects of the Soviet economy; OPEC supply and price issues; crisis situations in foreign agriculture; prospects for Soviet and PRC crops; developments in world financial markets; North-South confrontation issues; Eastern European hard currency indebtedness, etc. (See Tab B-3) The members seemed to share Secretary Richardson's and George Bush's view that in recent years economic issues have been assuming much greater importance in relation to our national security. Secretary Simon noted that he had received increasingly effective support from intelligence in many of these areas in recent years as a result of a closer working relationship.

b. Bill Casey stressed the view that insufficient attention is given to long term issues particularly issues involving the interrelationship between economic developments and developments in the areas of political affairs, technology, etc. While there was general agreement that more should be done in this area Deputy Secretary Robinson expressed doubts about the need for organizational changes to cope with this need. Secretary Richardson indicated his conviction that there is a need for systematic review by intelligence of potentially serious problems which may develop in the future and suggested that arrangements be made for a periodic interchange between intelligence users and consumers to review these prospective developments.

c. There was considerable discussion of the extent to which intelligence should become involved in policy recommendations. While one suggestion was made that it would be interesting for the policymakers to learn about ideas which CIA sources have on particular U.S. policies it was generally agreed that the intelligence community itself should not express policy views. Many felt that there are obvious advantages to be gained by having

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intelligence officers more involved in the policymaking process (e.g., as they have been in the SALT talks) even though it would not be the role of intelligence to make policy recommendations. It was noted that in the past intelligence has usefully provided estimates and analyses of the consequences of the U.S. adopting certain alternative policies or courses of actions (i.e., intelligence would look at certain consequences of policy options). There was no general agreement, however, as to the extent to which intelligence should be concerned with policy issues.

d. Several members, as well as Leo Cherne, indicated that a greater effort should be assigned by intelligence to an evaluation of the consequences of advanced technology to nations abroad. Secretary Coleman said that he often meets with ministers of transportation from Eastern Europe who are interested in an exchange of information and he felt that he would benefit not only from better policy guidelines but intelligence information in this area. Secretary Richardson noted that analysis was required not only within the context of East-West trade but in terms of relations between developed and developing nations and among the developed nations themselves. Richardson believes we particularly need an assessment of the capabilities of other advanced industrial nations in high technology industries.

e. Secretary Knebel said that while the Department of Agriculture and CIA had worked effectively on foreign agricultural questions there was a need for a continued strengthening of relationships with CIA. Favorable comment was made on CIA's and Agriculture's work with respect to agricultural developments in Communist countries.

f. Secretary Richardson and Director Lynn felt that studies should be undertaken of the differing systems of government among the industrialized democracies and within the Communist countries as these systems affect their trade and commercial relations with the U.S. Lynn, for example, thought that intelligence could be of great help in determining how records are kept in Communist countries with respect to costs of production.

g. Jim Lynn expressed the need for additional intelligence efforts in analyzing programs abroad covering health, employment and social developments. He felt this would be of

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considerable assistance in formulating our own policies in these areas. James Cannon indicated that he strongly supported Lynn's point. Some felt, however, that this was not an appropriate subject for intelligence.

h. Ambassador Dent emphasized the usefulness and high quality of intelligence which has been provided him in connection with international trade negotiations

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 He said consideration should be given to further expanding and improving this support. He did note that when intelligence reports on negotiations abroad the analysts do not always check their facts with the policy officials directly concerned. He referred to a recent incident involving his own office and made it clear that this was not a desirable situation.

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i. Several members expressed the need for intelligence to be on the alert for evidence of U.S. economic leverage which would be beneficial to the United States in pursuing its political and economic objectives abroad. Secretary Richardson, for example, suggested that a study might be undertaken of the history of economic sanctions and raised the question as to whether we are over estimating our potential leverage in certain areas.

j. Mr. Gorog said that more attention should be given to early warnings of impending developments abroad bearing on our foreign economic interests. It would have been very helpful, for example, if we had known three years ago that Taiwan and Korea were undertaking a massive expansion in their mushroom production. Comments were also made about the need to have intelligence help to verify the adherence of foreign countries to trade and monetary agreements. Some felt that intelligence could also help to identify problems of dumping. In this connection there was some concern that the Eastern European countries--including the USSR--might resort to dumping to relieve their shortage of hard currency.

k. Secretary Usery expressed particular interest in information on international labor developments and positions likely to be taken at international labor meetings. He would also like to have better knowledge of trade union movements abroad.

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1. Deputy Secretary Robinson said he felt it would be beneficial if there were arrangements to ensure that economic studies produced by State, Treasury and OER/CIA were better coordinated.

RECOMMENDATIONS

Both PFIAB Chairman Cherne and Secretary Simon expressed their satisfaction with the useful exchange that had been engendered by the meeting and urged that every effort be made to convey what had been learned to the transition teams and to members of the new Administration.

a. There was general agreement that the DCI should inform President-elect Carter of the principal conclusions of the meeting.

b. It was also agreed that shortly after the new Administration takes over CIA should brief senior officials responsible for international economic policy on the capabilities of intelligence to provide them with information and analyses on issues of policy and negotiations.

c. There was a general consensus that each member would inform his successor of the importance of strengthening his organization's interface with intelligence and of developing a more open and forthcoming relationship.

d. Recognizing the benefits from this particular meeting all seemed to agree that a periodic high level dialogue of this kind with the DCI would be highly beneficial. The members generally felt that this view should be passed on to their successors.

e. Several of those members who have had relatively weak ties with intelligence indicated that they would urge their successors to establish a person or unit in their departments or organizations which would be responsible for ensuring an active relationship with CIA and other members of the intelligence community.

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f. It was generally agreed that the Board members should encourage their successors to keep intelligence posted as to their needs and the policy and negotiating issues to which they relate and that they feedback to intelligence the analytic materials developed by policy elements in the various departments which will facilitate intelligence support activities.

g. It was implicit from the general discussion that this report should be passed to CIA and PFIAB for their reference and appropriate action and to the Board members for the use of their successors.

January 12, 1977

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Dear Bill:

Thank you for your thoughtful letter of October 21 proposing improvements in our economic decision-making processes.

Your proposals come at a good time since all of us are reflecting on the legacies we can leave to our successors. Our recent EPB meeting with George Bush is a reflection of this and I am delighted that you had a chance to summarize some of your principal suggestions for the benefit of the EPB principals and for George Bush as well. I am also pleased that the principals have now had a chance to see a copy of your report to the PFIAB.

I strongly agree with the thrust of your paper. We can and should do a better job and I am convinced that with some changes in existing decision-making structures we can make important improvements.

As Leo Cherne said at the meeting--and I agree completely with him on this--we have come a long way over the last two to three years in strengthening the relationship between intelligence and the economic policymakers. Working together we have achieved enormous gains in the effectiveness of intelligence support for both our more immediate and our long range decisions. I feel that some version of your proposals can move us further down the road toward an even better system for intelligence support, particularly on the longer range issues.

It is certainly true that most economic policymaking is focused on short term problems but these short term decisions are very often made within the broader context of long term policy guidelines. In any event I believe that the very

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nature of government requires that we give more attention to the more immediate issues than to longer range ones.

As you may know on some questions the EPB has sponsored long term studies. For example, in the area of commodity policy the EPB directed that a special study group be established under the joint auspices of the EPB and NSC. After months of work it prepared the proposals which eventually became the U.S. comprehensive approach to international commodity policy. This continues to serve us very effectively as a policy framework for our decisions in the commodities field. Similarly, the research and analysis which we undertook during the last few years in connection with our efforts to achieve international monetary reform were clearly initiated with our long term policy goals in mind. I have no doubt that the EPB would have become more involved with long term analysis had not some of its initiatives been hampered by the demands of an election year.

I fully recognize that we should be devoting more time than we have in the past to some of our longer range problems and I firmly believe that this can be effectively achieved through some restructuring of the NSC machinery. To do this we must begin with the NSC itself. As the Murphy Commission has recommended it is important that the NSC give more emphasis to the relationships between economic issues and national security policy. Most policy matters of NSC concern have economic and financial implications. The Murphy Commission has also recommended, as a corollary to this point, that the Secretary of the Treasury should be made a statutory member of the National Security Council. As you know, I strongly agree with this recommendation.

It would logically follow from this that the NSC should establish a separate sub-group responsible to study and make recommendations on issues of international economic policy and strategy. In today's world there is no question that we should be looking at matters of economic strategy as a major element of our national security policy just as we do questions of defense strategy. A group of this kind could

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examine fundamental, longer term issues and could effectively bring together intelligence and policymaking in a single body. It could also work closely with the EPB and each could contribute to the other, though the EPB would of course be relatively more involved with policy matters of more immediate concern.

A new arrangement of this kind within the NSC structure would fit in well with the thought expressed by George Bush at the EPB meeting that it might be useful to have an inter-agency intelligence body under the Director of Central Intelligence which would focus on economic and politico-economic intelligence questions related to both immediate and longer term policy issues. This body would be concerned with developing intelligence on an interagency basis and could be useful as a forum for providing support to a new NSC group of the type I have described above.

CIA already has a very well staffed, highly professional economic office that could also be called on much more frequently for analyses of longer term issues. We recently had a good example of this kind of "tasking" of the Agency. The East-West Foreign Trade Board has been concerned about the issue of Soviet and East European debt. I asked that arrangements be made with George Bush for Agency research support on this question and we found the Agency very responsive and informative. CIA economists appreciated the chance to contribute to the decision-making process and I am confident that there are many other longer range issues of this kind which could benefit from the analytic capabilities of that CIA office.

I do believe, as I told George Bush at the EPB meeting, that intelligence could do more than it is doing now to shed light on a number of key policy issues. I think it is important that intelligence not take too purist a stand in seeking to avoid policy questions. I am sure there are times, for example, when their sources would have ideas on policy matters that would be useful for us to know. There are also ways, I believe, that intelligence analysis can be helpful without making direct policy recommendations (e.g., they can write about the consequences of certain alternative courses of action that are open to the United States or that might be taken by a foreign country.)

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I thoroughly agree with your view that in studying longer range problems we should not look at economic issues in isolation. We should also consider the scientific, political and other ramifications. In this effort we should draw not only on government economists and intelligence officers but on experts in the private sector as well, including engineers, scientists, business executives, foreign affairs analysts, financial experts, etc. In this connection, Bill, I agree with the point Chuck Robinson and others made at the EPB meeting that it is most difficult on many economic issues today to separate consideration of these issues from their political and foreign policy implications and of course it works the other way as well. It is almost impossible to consider many foreign policy and national security matters without getting into their economic and financial implications. All of this argues, as I said before, for the Secretary of the Treasury to be a member of the NSC.

While we should do more to strengthen our decision-making and analytic capabilities on longer term issues I believe that at the same time we should make efforts to strengthen our information base as well. It is true that there is a large amount of information available. Certain of that information, however, needs cross checking and there are important gaps in our knowledge that need filling. Information required by policy officials in their efforts to formulate policy and to prepare for negotiations is not always available in sufficient detail. This is true with respect to information required on both short term and long term issues. I feel it is particularly important that intelligence expand its collection activities so that we may have better cross checks, harder information, more detail and a better understanding of developments in those areas where we now have precious little information. Some of the most important information we need can only be acquired through intelligence and it is up to the policymaker to do a better job of informing intelligence more precisely what information is required to meet his priorities.

I think you agree with the point I made at the EPB meeting that our relations with the intelligence community must be a two-way street. I have been very conscious of this need over

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the last two to three years and have told George Bush and PFIAB that intelligence can have whatever it needs from Treasury. I have personally given instructions to my staff to make available to intelligence my briefing books and memcons as well as the product of our own analysis here at Treasury. We also invite intelligence representatives to participate in the discussions of various policy groups dealing with international economic issues. And we believe it is very important to keep them as fully informed as possible on the policy and negotiating questions and the various upcoming events of importance in the policy area. We supplement this through our daily contact with intelligence at all levels so that they can be informed as precisely as possible as to our requirements for intelligence support. There clearly is more we can do in this area but I believe we have substantially strengthened the relationship that existed two or three years ago. These efforts have helped prime the pump so to speak and have contributed to a great improvement in the benefits we have derived from intelligence over the past few years. I feel strongly that if other agencies would work out similar arrangements they would also reap very impressive gains in the assistance they receive from the intelligence community.

Bill, I appreciate your suggestions very much, and the fact that you have taken the time to think this through and give us your ideas. I have touched on some of these issues in previous suggestions I have sent to the Agency as you probably know from the letter I sent to George Bush on September 28, a copy of which we also sent to you. I am delighted that you have taken the initiative in this area and I am anxious to see the new draft of your proposals after you have received the comments of the other EPB members.

Sincerely,

J.C. Bill

William E. Simon

William J. Casey, Esq.
Rogers & Wells
1666 K Street, N.W.
Washington, D. C. 20006

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Remarks:

Attached is a draft letter for your signature to Secretary Simon acknowledging his letter and report to you of 13 January regarding your participation and support in the 9 November Economic Policy Board.
*Your letter and Simon's will be distributed to those he mentioned in his letter of 13 January.



7/10 11:35 AM

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to: E. H. Knoche of the Treasury
CIA Hqs. Office of Special
Assistant to Secretary
room 7D6011 date 1/17/77 for National Security

Hank:

Hope we have reflected the
Agency's views reasonably
accurately. Maurice and Hans
were most helpful.

Bill
Bill

*Let's route
to ICS
and within Agency*

William N. Morell
room 4330
974-2536
566

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